

## **National Institute of Library and Information Sciences affiliated to the University of Colombo - 2014**

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The audit of financial statements of the National Institute of Library and Information Sciences affiliated to the University of Colombo for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, was carried out under my direction in pursuance of provisions in Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Sub-section 107(5) of the Universities Act, No. 16 of 1978. My comments and observations which I consider should be published with the Annual Report of the Institute in terms of Sub-section 108(1) of the Universities Act appear in this report.

### **1.2 Management's Responsibility for the Financial Statements**

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Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

### **1.3 Auditor's Responsibility**

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My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000 – 1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgements, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Institute's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Institute's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Sub-sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

**1.4 Basis for Qualified Opinion**

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

**2. Financial Statements**

**2.1 Qualified Opinion**

In my opinion, except for the effects of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the National Institute of Library and Information Sciences affiliated to the University of Colombo as at 31 December 2014 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

**2.2 Comments on Financial Statements**

**2.2.1 Sri Lanka Public Sector Accounting Standards**

The following observations are made.

**(a) Sri Lanka Public Sector Accounting Standard 03**

- (i) Even though the nature of the error of the prior period and the amount to be rectified for the line items should be disclosed, all prior year adjustments had been adjusted through a Ledger Account and the debit balance of Rs.928,781 had been adjusted to the accumulated deficit.
- (ii) In changing the accounting policies during the year under review, action had not been taken to submit the reason for such changes and the comparative information after making adjustments to carrying amounts of relevant account balances considering that the accounting policy was applied retrospectively.

**(b) Sri Lanka Public Sector Accounting Standard 07**

- (i) Action had not been taken to revalue and account to show fair value of the fully depreciated but still in use fixed assets costing Rs.26,058,970.
- (ii) Even though the gain or loss arising from the disposal of property, plant and equipment should be adjusted, the adjustments had not been made for the cost and accumulated depreciation pertaining to 102 units disposed as scrap items in December 2014.

**2.2.2 Un-reconciled Control Accounts**

A difference of Rs.3,436,611 was observed in the reconciliation of balances of 07 items of accounts and the balances of schedules and reports as at the end of the year under review.

### **2.3 Non-compliance with Laws, Rules, Regulations and Management Decisions**

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The reports on Value Added Taxes amounting to Rs.104,408 paid to 06 institutions had not been remitted to the Commissioner General of Inland Revenue with a copy to the Auditor General in terms of the guideline 5.4.12 of the Procurement Guidelines – 2006.

## **3. Financial Review**

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### **3.1 Financial Results**

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According to the financial statements presented, the operation of the Institute for the year ended 31 December 2014 had resulted in a deficit of Rs.985,307 as compared with the corresponding deficit of Rs.215,893 for the preceding year, thus resulting in a deterioration of Rs.769,414 in the financial results of the year under review as compared with the preceding year. Even though the expenditure had decreased by a sum of Rs.288,712, the decrease in fines and licence income by Rs.1,043,119 had mainly attributed to this deterioration. The accumulated deficit as at 31 December 2014 had been Rs.27,495,077 due to the increase of deficit annually.

## **4. Operating Review**

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### **4.1 Performance**

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The following observations are made.

- (a) According to Section 4(a) and (c) of the National Institute of Library and Information Sciences Ordinance No. 01 of 1999, the approval for the Courses conducted by the Institute should be obtained from the University Grants Commission. Nevertheless, the Institute had conducted 88 Courses comprising 36 Postgraduate Courses, 15 Diploma Courses and 37 Certificate Courses from the year 2003 up to 31 December 2014 without obtaining such approval. Out of the 1,533 students registered for those courses, certificates had been awarded to 789 students.
- (b) Syllabuses of 13 Courses out of 15 Courses commenced by the Institute since the year 2003 up to 2011 had not been revised.
- (c) The three year course of Master of Philosophy (M.Phil.)/ Doctor of Philosophy (Ph.D.) 2007/2010 commenced in the year 2007 for which only 07 students had registered could not be completed despite the lapse of 08 years, whereas 05 students had dropped out of the course. Five other Courses could not be completed despite the lapse of more than 03 to 07 months from the scheduled date of completion.
- (d) Five courses and 09 training programmes and other courses included in the Action Plan could not be conducted as an adequate number of students had not applied.
- (e) Sinhala and Tamil printed News sheets scheduled to be published quarterly had not been able to publish during the year under review.

#### **4.2 Management Inefficiencies**

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The following observations are made.

- (a) It was observed that the financial control was unsatisfactory due to the reasons of non-appointment of a permanent officer for receiving cash, failure to balance the cash book daily, alteration of figures therein without an approval, failure to issue receipts in the order of serial numbers and availability of instances of altering such numbers, instances of unmethodical recording of daily receipts and payments in the cash book, non-maintenance of a register for issuing cheques, frequent cancellation of written cheques and cancellation of 81 cheques valued at Rs.2,355,625 in the year under review, events of occurring differences of cheque numbers and denominations in cash book and paying vouchers and incomplete Register of cancelled cheques.
- (b) The National Institute of Library and Information Sciences had been established with the objective of training Teacher Librarians under the Second General Education Project of the World Bank. Approval had been granted through the Cabinet Paper No.09/1488/316/055 dated 27 August 2009, for the inclusion of professional qualifications to be obtained by the teachers of Library and Information Sciences (Teacher Librarians) in the Sri Lanka Teachers' Service Minute. Nevertheless, the relevant professional qualifications had not been included in the Teachers' Service Minute as yet.
- (c) Even though a Higher Degree Committee had been included in the Organizational Structure of the Institution in terms of Section 7(3) of the National Institute of Library and Information Sciences Ordinance No.01 of 1999, a Higher Degree Committee had not been established in the Institute and the relevant activities to be performed by a Higher Degree Committee as per the regulation of M.Phil./ Ph.D. courses had been get done through the Academic Committee.
- (d) Even though the expenditure on stock consumption during the year under review amounted to Rs.406,023, proper control systems on issuing stocks had not been introduced.

#### **4.3 Uneconomic Transactions**

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A sum of Rs.2,700,000 received in the year 2003 from the General Education Project (GEP2) for the construction of the Institute had been invested in fixed deposits over a number of years without being utilized for the intended purpose.

#### **4.4 Transactions of Contentious Nature**

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The following observations are made.

- (a) Rectification of prior year accounting errors had been assigned to an external party and an allowance of Rs. 30,000 had been paid despite not rectifying such errors completely.

- (b) Although only the benefits specifically approved by the Cabinet of Ministers, Ministry of Public Administration or the Treasury should be paid to its employees in terms of Public Enterprises Circular No.95 of 14 June 1995, payment of a sum of Rs.131,533 had been made to an officer recruited on assignment basis and to 04 officers of the staff as course coordination fees and fees for assistant during the year under review without obtaining such approval.

#### **4.5 Staff Administration**

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Four posts of the approved cadre had been vacant as at the end of the year under review. Service of three officers recruited on the assignment basis had been obtained for vacancies of three non-staff grade posts from the years 2007 and 2011.

### **5. Accountability and Good Governance**

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#### **5.1 Action Plan**

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The Organizational Structure, approved cadre, particulars of actual cadre at present, plan of imprest requirements for annual activities, the budget, procurement plan and internal audit plan which should be included in the Annual Action Plan as per the instructions of Public Finance Circular No.01/2014 of 17 February 2014 had not been included.

#### **5.2 Budgetary Control**

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The following observations are made.

- (a) The budgeted income statement, balance sheet and the cash flow statement had not been presented with the budget in terms of Section 5.2.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003.
- (b) Variances between the budgeted and the actual income and expenditure ranging from 10 per cent to 112 per cent existed, thus indicating that the budget had not been made use of as an effective instrument of management control.

### **6. Systems and Controls**

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Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Director of the Institute from time to time. Special attention is needed in respect of the following areas of control.

- (a) Accounting
- (b) Maintenance of Registers
- (c) Financial Control
- (d) Asset Management
- (e) Stores Control
- (f) Budgetary Control
- (g) Control of Advances
- (h) Procurement Activities